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SUBJECT: CHINA'S TRADING HOPES AND REGRETS

11. (SBU) Summary: According to Chinese Embassy Economic and Commercial Counselor He Xiaoling, Chinese businesses face many of the same obstacles - lack of transparency, transportation, and expediency - that American companies face when doing business in Vietnam. She attributed the dramatic rise of bilateral Chinese-Vietnamese trade to more than USD 6.7 billion in 2004 to the Chinese-ASEAN Free Trade Agreement, rising oil prices, and Vietnam's textile quotas. She also shared some insights into China's disappointment with the amount of concessions given to the Vietnamese at the close of its bilateral WTO accession negotiations. End Summary.

12. (SBU) On Thursday, September 1, EconCouns and Econoff meet with Chinese Embassy Economic and Commercial Counselor Ms. He Xiaoling. Ms. He, a fluent English speaker trained in Beijing, Hong Kong, and the United States (Colorado), was accompanied by Economic and Commercial Second Secretary Mr. Wei Xichen, who said he was on his second tour and seventh year in Hanoi. Ms. He, who has only been in her position for five months, began the discussion with a description of the business climate in Vietnam, frequently referencing her own previous experience here as a textile buyer for a Chinese SOE. She joined the Ministry of Foreign Affairs (MFA) in 2000. She observed that Vietnam's business climate is a difficult one for Chinese firms, despite the recent boom in trade. Chinese companies list a lack of government transparency, poor transportation infrastructure, and slow, complicated government decision-making as their top complaints. Ms. He added that the Prime Minister, in her experience, reviews any foreign contract worth more than USD 60,000, which means, in practice, that all business proposals require the Prime Minister's approval.

13. (U) When asked why, despite these obstacles, Chinese-Vietnamese trade had increased so dramatically in 2004, Ms. He named three factors: 1) the benefits of the China-ASEAN Free Trade Agreement; 2) the rising price of oil and Vietnam's inability to refine it (requiring export to China for processing and then re-import to Vietnam as refined products); and 3) the lower quality of Vietnamese textiles, which, Ms. He claims, creates a demand for higher quality textiles to maximize Vietnam's quotas, textiles which China can most cheaply and easily supply. (Note: Chinese total trade with Vietnam in 2004 reached USD 6.743 billion, up more than 45.3 percent from 2003. Total trade in January 2005 alone was more than USD 753 million. Even more astounding are China's 2004 imports, which, at USD 2.482 billion, are up 70.4 percent from 2003. As a point of reference, Vietnam's total bilateral trade with the United States reached USD 6.4 billion last year. End note.)

14. (U) Ms. He also expressed hope that the proposed rail line and roadway to connect Guangzhou, China and Haiphong, Vietnam would increase trading opportunities even further. She noted the Chinese refer to this plan as the "Two Corridors, One Belt" concept which, if realized, would eliminate some of the transportation obstacles Chinese companies currently face.

15. (SBU) Most interesting of all, Ms. He and Mr. Wei, both of whom participated in the seventh and final Chinese-Vietnamese WTO negotiating round, expressed some regret at the way China had concluded its bilateral agreement with Vietnam on WTO accession. They confirmed that Article No. 44 of the Chinese-Vietnamese WTO agreement details China's concession on safeguards, which the Vietnamese pledged not to use against them. Ms. He also expressed regret that such important issues like tariffs on Chinese motorcycles were so quickly conceded when raised by the Vietnamese. She opined that this was partly a politically motivated conclusion that took place on the margins of the July visit of Vietnamese President Tran Duc Luong to Beijing.

MARINE